



GÖTEBORGS UNIVERSITET  
HANDELSHÖGSKOLAN

# Board Formation in University

## Spin-Offs

- A qualitative study on board formation and changes  
in a Swedish context

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June 5, 2014

Bachelor Thesis

Business Administration, Management

Thesis Supervisor: Alexander Styhre

## **Abstract**

### **Summary:**

The ubiquity of business has subsequently led to the worldwide expansion of Corporate Governance (CG). As the future and its contingencies put pressures on companies, scholars try to explain certain phenomenon and scrutinize them. Corporate Governance has throughout time been heavily investigated, primarily focusing on the agency theories, and more recently, stewardship and other multi-dimensional theories for answers. However, on the flipside, other paths of CG have been somewhat neglected. One of these is the Board Formation and Board Composition. By devising a research model including theories pertinent to the latter we intend to investigate the phenomenon. Furthermore, the University Spin-Off (USO) setting is moreover irrefutably under-stimulated of scholarly attention in regard to aforementioned board matters. Thus, by combining the two in a Swedish setting and by conducting a qualitative case study approach, we hope to shed new light upon the conundrum. What we found was that the Board Formation/Composition to a large extent follows the theories and model that we proposed in our work, thus giving it academic and scholarly credibility and validity in our setting. Furthermore, individuals are added via the social and personal networks of existing personnel because they offer resources and/or competencies that the venture is lacking and needs in order to progress. However, no decisive evidence was found in regard to if the selection of individuals to the board varied over its Firm Life-Cycle.

### **Title:**

Board Formation in University Spin-Offs – A qualitative study on board formation and changes in a Swedish context

### **Course:**

Bachelor Thesis – Business Administration, Management

### **Authors:**

Gustaf Bernander & Victor Bördin

### **Research question(s):**

*How and why are specific individuals selected as board members in USO's?*

*Does the selection of board members vary depending on what stage in the life-cycle the firm is in?*

<b>Purpose:</b>	Board Formation and Composition in a University Spin-Off setting is still an academic phenomenon that has received relatively low scholarly glances. Furthermore, in the context of Sweden more light has yet to be shed upon the conundrum. As a result of the following we have decided to embark on a sojourn where we explore the former and the latter in a qualitative manner and juxtaposing it to relevant theory.
<b>Abbreviations:</b>	University Spin-Off (USO), Venture Capitalist (VC), Corporate Governance (CG), Resource Dependence Theory (RDT), Social Network Theory (SNT), Life-Cycle Theory of a University Spin-Off (LCT)
<b>Definitions:</b>	(1) <b>Board Formation:</b> how the board of the company in question is formed; who sits on the board, how has he come about and why is he there are common questions related to the formation. (2) <b>USO:</b> A University Spin-Off is a venture that has committed to transform technological inventions developed from university research that are likely to remain unexploited otherwise. Further, they have committed to the development as a part of their university education, and post-graduation continued to work with the venture.
<b>Target group:</b>	University Spin-Offs operating in a Swedish context
<b>Focus group:</b>	Start-up firms with similar backgrounds as the ones presented in this study; thus <u>High-Tech Spin-Offs</u>
<b>Theoretical perspectives:</b>	We have compiled existing academia with emphasis on corporate governance and more specifically on Boards in an USO setting. Most prominently, we have focused on applying the work of Björnåli & Gulbrandsen (2010), but also theories such as RDT, SNT and LCT
<b>Methodology:</b>	The study includes a qualitative approach in which we collected our empirical data through interviews
<b>Keywords:</b>	Corporate Governance, Sweden, University Spin-Offs, Board Formation, Board Composition, Selection Antecedents

## Acknowledgements

We would like to send our regards to our respondents, Janne Liljeblad at Excavator, Andreas Johansson at Hydropro AB, and Jimmy Hasselblad at Prosteria AB for participating in this study. Without their consented collaboration this thesis would remain unfinished and therefore we give them our sincerest recognition.

Further, we would also, in particular, send regards to our supervisor Prof. Alexander Styhre for his constructive insights and assiduous guidance and mentoring.

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Gothenburg 2014

A handwritten signature in blue ink, appearing to read 'Gustaf Bernander', written over a horizontal line.

Gustaf Bernander

A handwritten signature in blue ink, appearing to read 'Victor Bördin', written over a horizontal line.

Victor Bördin

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## 1. Introduction

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The following introductory chapter presents a background discussion and a problem discussion. Ultimately, we intend to describe the phenomenon of corporate governance and elucidate its entailments. From this, we then dwell into the paradigm and discover that board formation in University spin-offs in a Swedish context is where we wish to research within the corporate governance field, which ultimately constitutes our purpose and research questions.

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### 1.1 Background

Corporate governance and all that it incorporates has been one of the most prominent and ever-recurring topics within the realm of academia and its importance has its roots in the corporate scandals that come and go throughout time (Jacksén & Pettersen, 2012). In recent years, the spotlight for governance issues has somewhat shifted towards banks and financial institutions, due to the surfacing of and their subsequent involvement in financial crises. However, as Shleifer & Vishny (1997) point out, the subject of corporate governance is of imperative nature due to its direct relationship with corporate practice; thus conducting research within the area is attractive as it explores practical importance.

However, with the plethora of corporate governance studies, ranging from Berle & Means (1932) to Jensen & Meckling (1976) to Lynall *et al.* (2003) highlights the interest of corporate governance throughout time within academia. Based in the latter, it is therefore imperative to elaborate on what defines the various activities within the corporate governance discourse. Dalton *et al.* (2003: 371) state that the definition is usually aligned with the following: “*the primary focus on the control of executive self-interest and the protection of shareholder interests in a setting where organizational ownership and control are separated.*”; Where much interest is subsequently connected to the efficacy of various mechanisms at disposal to protect the shareholder from self-interested and whimsical executives.

As a result, within the realm of academia, *agency theory*, has been one of the most ubiquitous underpinnings when elucidating corporate governance (Shleifer & Vishny, 1997; Dalton *et al.*, 2003), where, as Filatotchev *et al.* (2006) argue that the agency theory application has tended to be directed towards large mature companies listed on a stock market, thus ultimately receiving the “lion’s share” of attention of academic scholars; optimal corporate governance consensus is based on large and mature corporations. This theory postulates and elaborates on the inherent issues that arise when ownership and control are separated. Often, the corporation is reduced to active participants, namely the managers and the shareholder. According to agency theorists, one of most common and central actions is the board’s oversight monitoring

of the executives; this to provide shareholder with assurance and protection of their interests, as this situation creates an opening conducive to managerial opportunism (Dalton *et al.* 2003; Shleifer & Vishny, 1997; Johnson *et al.* 1996; Walsh & Seward, 1990). As a result, the board is commonly responsible for key oversight functions that include: hiring, firing and compensating CEO's and for overall effective organizational functioning (Dalton *et al.* 2003; Blair & Stout, 2001). Thus, conclusively, the board could be seen as "*the apex of the internal control system*" (Jensen, 1993:862).

Although agency theory has been the dominant theoretical inception for research, there is an array of other theoretical bodies that provide insights and alternative approaches for corporate governance studies. At the same time studies such as Faleye *et al.* (2011) show a decline in firm performance derived from costly monitoring results undertaken by a high number of independent directors, as these actions crowd out the strategic dimension of the board. Therefore, it has become lucrative to, as previously postulated, find alternative foci. Here, theoretical perspectives such as Resource Dependence Theory (Pfeffer & Salancik, 1978) and Stewardship Theory (Davis *et al.*, 1997) are areas with future potential. Although these areas have been researched for a considerable amount of time (referring to the years) they have been undermined and quasi-neglected due to the prominence and surge of agency theory. Resource Dependence Theory has its inception in the director's resource role and see the board members contributions as boundary spanners of the organization and its environment; therefore outside directors are allocated and recruited as they provide access to resources that are sought after by the firm, which ultimately might enhance functioning, performance or even survival (Pfeffer & Salanciik, 1978; Dalton *et al.* 2003; Dalton *et al.* 1999). Stewardship theory, argues that executives and directors often have isomorphic interests with those of the shareholder, which is in contrast to agency theory who sees executives and directors as opportunistic and self-serving (Davis *et al.* 1997). However, the theory does not argue that executives and directors are altruistic in their nature; instead the mere recognition that in many situations executives can serve their own interests by serving the shareholders' interests (Lane *et al.* 1998).

All the elaborated perspectives of corporate governance presented so far can be seen as quasi-static, this as they do not articulate the time parameter. In response to this, researchers have turned attention to excavating and identifying factors that might explain how corporate governance is affected over time. This shift to a more dynamic approach incorporates changes in the industry, in the size of the firm, volatility of performance, sales growth and other



variables of contingency which have been enunciated in literature (Jacksén & Pettersen, 2012).

One line of research has embarked and undertaken to investigate these contingency factors in relation to corporate governance, namely: *firm-life cycle theory*. Within this line of research, academics have focused on the different changes that corporations undergo and undertake in relation to their corporate governance structure as they enter a new life-cycle phase: this as a new phase requires different needs (Filatotchev *et al.* 2006). Prior research on corporate governance structures have in specific, in contrast, focused on the power of the CEO (Harjoto & Hoje, 2009), board independence (Lynall *et al.* 2003), board monitoring-intensity by board over executives (Vafaes, 1999) and the board's work (Huse & Zattoni, 2008).

As previously iterated, much of the literature has primarily focused on large and mature firms, which deductively would lead one to postulate that smaller firms, such as entrepreneurial firms and other SME's have been, in comparison, neglected by academia. In unison with the latter, Daily *et al.* (2002) try to investigate governance in entrepreneurial firms, this as they argue there extant research has only provided little evidence in the case and the entrepreneurial setting provides a venue where the impact of governance structures and strategic leadership are most likely to be evident. After providing a synthesis of the entrepreneurship literature relevant to the CEO/Founder, the Board, the Venture Capital they come to the conclusion that extant research is suggestive, at best, but is not applicable in the entrepreneurial setting, this as a constant and consistent theme within the research is a relative dearth. Thus, the relationship between governance/strategic leadership variables, *exempli gratia*, CEO/Founder, the Board, the Venture Capital and firm performance is an opportunity lost (Daily *et al.* 2002).

Furthermore, in recent years, there has been a substantial rise in the creation of university spin-off companies (Siegel *et al.*, 2003b). The commercialization of these university activities has become a key point on universities' and governments' agenda (Wright *et al.* 2006). However, research in regard to corporate governance and university spin-offs is scarce, but Björnåli & Gulbrandsen (2010) have attempted to shed some light upon the conundrum.

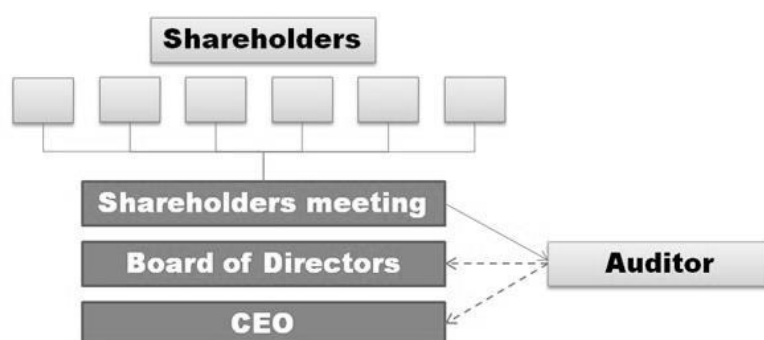
From the aforementioned, it is evident that the realm of corporate governance has been a highly lucrative endeavor for academia throughout a considerable amount of years. As it has been postulated, different approaches have been utilized by academics when conducting governance research such as: Agency theory, Resource Dependence Theory and Stewardship

theory. Imperative to stress is that these approaches are in no way the exclusives ones; however we argue that their prominence reflects their popularity within academia, which is why they have been elaborated on. Ultimately, as Dalton *et al.* (2003) implicitly conclude, there seems to be a need for more research in regard to entrepreneurial settings. Also, the emergence of University spin-offs has tantalizingly caught our attention. Therefore we intend to elaborate within these settings, which will be discussed in the following section.

## 1.2 Problem Discussion

As we have previously stipulated in this study, corporate governance has been thoroughly and comprehensibly investigated within academia. However, we argue that research in relation to Sweden is in dire need of extension and therefore it is within this context we aspire to elaborate and conduct our research. Furthermore, continuing the delimitation, we also argue that the realm of University spin-offs (USO) is of enticing nature for us to figure within; hence we also intend to incorporate the latter in our research. Conclusively, corporate governance is broad in its terminology as it incorporates a vast body of various perspectives, thus in order to for us to study it, we have intended to delimitate it and channelize the lion's share of attention to the Selection of Board and CEO in University spin-offs, as they are the main characters within corporate governance studies.

Following the discussion, since we have decided that our study shall aim to investigate Corporate Governance in a Swedish context, it is imperative to acknowledge certain national differences. Therefore, we need to address the different regulated statutory rules and practices connected to Swedish firms. Jacksén & Pettersen (2012) argue that the Swedish Governance model (see figure 1) lies on the foundation of the Swedish Company Act, which denotes that a company must have three different decision-making bodies including: Shareholders meeting, the Board of Directors and the CEO, where the Shareholders meeting is the highest ranking decision-making body. The owners have therefore vast influence over the organization by expressing their opinions on the meeting. Majority shareholders can subsequently decide matters of grave importance for the firm by expressing their thoughts on the Shareholders meeting.



(Figure 1)

In unison with the previously stipulated, much of the research has investigated mature firms, using US firms as samples and agency theory (Huse, 2007). Drawing from the latter it is no surprise that conducting research on small firms, from other countries and not applying agency theory is of utter salience to broaden the field. Since we have snared our focus to Board formation of University spin-offs, what has previous research stated?

Research into board formation in small firms has primarily focused on boards as a means for new firms to cope and manage external dependency (Pfeffer & Salancik, 1978; George *et al.* 2001; Björnåli & Gulbrandsen, 2010). Venture capital, social exchange, social networks, identity and various other facets of involvement in small firm boards have been applied to improve our understanding of board formation and corporate governance in private firms (Sapienza *et al.* 2000; Deakins *et al.* 2000; Uhlander *et al.* 2007). Still, little attention has been directed towards the board of University spin-offs, which is a relatively unstudied area within research (Huse, 2007; Uhlander *et al.*, 2007). According to Björnåli & Gulbrandsen (2010) and Vohora *et al.* (2004) boards in University spin-offs are interesting to study since these ventures are in transition, and go through a number of different stages of activity and thus need to attain an wide array of different resources, capabilities, board structures and processes to aid in the transition between stages.

Once a team has been selected and the imperative resources it requires have been determined, it is common that additional resources are allocated from outside the venture in the start-up phase (Björnåli & Gulbrandsen, 2010). As Lynall *et al.* (2003) postulate that attracting experienced and well-connected members to the board might be the way to go as they might play a critical role in assessing and accessing external resources and other variables. However this might be hard for scientist/entrepreneurs whose network connections are tied to peers within academia (Mosey & Wright, 2007). Moreover, moving the University spin-off to the next transitional phase might, might require more additional resources and capabilities. Therefore attracting new external directors to the board that can obtain and provide access to these additional variables might be opted for. Thus, conclusively, one might argue that as the firm goes through different phases, different board members are needed (Björnåli & Gulbrandsen, 2010; Lynall *et al.* 2003).

Still, as previously argued, few studies have explicitly focused on the boards of University spin-offs. However, a few scholars have initiated the penetration of the conundrum. Clarysse *et al.* (2007) conducted a quantitative study the board composition in High-Tec start-ups in

Belgium, Filatotchev *et al.* (2006) studied 27 University spin-offs and provided evidence that as the ventures face different developmental thresholds, they obtain different external resources and expertise, and Vanaelst *et al.* (2006) focused on the board evolution in conjunction with legal establishment. Extracting commonalities from prior research, it is evident that board formation/composition may change, thus, it is imperative to acknowledge that further research needs to recognize the presence of change-over-time and thus, emphasize the life-cycle of the firm to its board autonomy. This stands in contrast to more “obsolete” research findings, as they, according to Björnåli & Guldbrandsen (2010) take a snapshot of the board composition at a certain fixed point and then subsequently try to link it to firm performance.

Conclusively, building on the discussion provided in this section, it is clear that board composition/formation is an area in which research has been lacking, although it has been touched upon by scholars. Incorporating the latter with the notion that University spin-offs are interesting to conduct research within due to their nature, as previously presented, ultimately delineates an interesting line of research to study within. Furthermore, taking into account the life-cycle aspect of a firm, and the inherent changes over time that might affect the board composition/formation of a firm provides a more comprehensible foundation for us to utilize. Additionally, as we intend to operate within the context of Sweden, we intend to expand the research with nation contexts: as we have seen little research has been conducted, mostly relating to the national contextual settings of: USA, Belgium and The UK. Therefore, by specifically focusing on Sweden, our intention is to contribute with more findings to the field. Noted is that Lindholm-Dahlstrand (1997a; 1997b: 1999) has touched upon the conundrum of Spin-offs within the context of Gothenburg, Sweden. However, her focal point does not point towards boards, thus our foci diverge, which makes our purpose more academically legitimate. Finally, we intend to use a qualitative approach, as we argue it will draw a more colorful and vivid picture of the conundrum than pure quantitative approaches can attain.

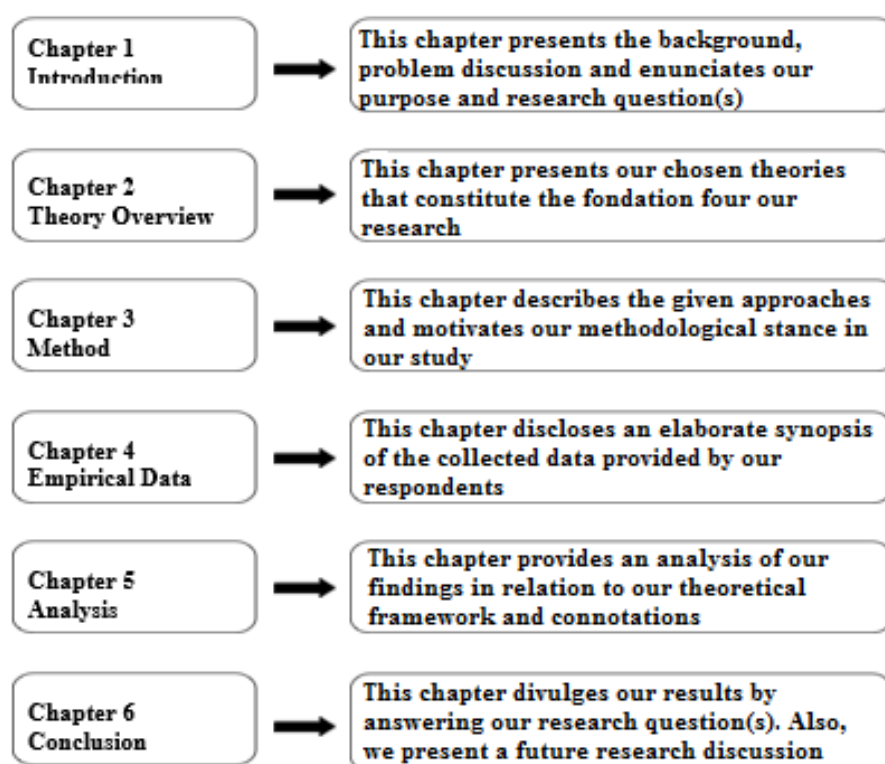
### **1.3 Purpose and Research Questions**

Based on the problem discussion presented above, it is clear that board formation/composition in University spin-offs is a phenomenon within corporate governance studies that has, so far, received a counterintuitively low amount of scholarly attention. Furthermore, when operating within the Swedish Context close to no academic contributions have had discerning outcomes. Interestingly, also the life-cycle perspective we argue is interesting as the University spin-off setting provides many cycles of change. Thus, qualitatively studying board formation in

USO's over time in a Swedish context is what we intend to elaborate on; hence we formulate the following research questions:

1. *How and why are specific individuals selected as board members in USO's?*
2. *Does the selection of board members vary depending on what stage in the life-cycle the firm is in?*

## 1.4 Thesis Disposition



## 2. Theoretical Framework

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The following chapter presents the theoretical contributions that we have included in our research. We will provide a model, which will guide us in our research which is based on the work of Björnåli & Gulbrandsen (2010). However, other complementary work such as: Resource Dependence Theory (RDT), Social Network Theory (SNT) and Life-Cycle Theory (LCT) will also be elaborated on as they are salient cornerstones in our research.

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### 2.1 Resource Dependence Theory (RDT)

Resource Dependence Theory recognizes the possible influence external factors might have on organizational behavior, decisions *et cetera* and, even though constrained by their context, managers can act in certain ways to reduce environmental dependence and uncertainty (Hillman *et al.* 2009). Commonly, RDT has been used to examine board size and composition as an indicator of a board's ability to attain critical resources to the firm; where these actions are seen as rational organizational responses to the conditions in play in the external environment (Hillman *et al.* 2009; Pfeffer, 1972b). According to Pfeffer & Salancik (1978) directors can bring four advantages to organizations: (1) advice, counsel and information, (2) access to information channel between environmental contingencies and the company, (3) access in the form of preference to resources, and (4) legitimacy. Kor & Misangyi (2008) find in their study evidence that credit the aforementioned advantages, especially the advice and counsel of the board to top management. Conclusively, the evidence is resilient and has accrued strong support for the four advantages proposed by Pfeffer & Salancik (1978), thus the dynamic nature of board (its changing in formation and composition as the external environment changes) has become normative convention (Hillman *et al.* 2009).

### 2.2 Social Network Theory (SNT)

Social Network Theory explores the social ties, personal and acquaintance networks of individuals and the possible benefits that can be extracted as a subsequent result. According to Timmons & Spinelli (2004) argue that a firm or venture has tendencies to search via the lead entrepreneur's or the lead team's personal network of acquaintances for their initial outsider directors. In regard to the board formation and board member selection there is an alignment with the previous stipulation, *id est*, the addition process of board members is argued to also be driven by actors' social and interpersonal relations and networks (Forbes *et al.* 2006). Thus, conclusively, the implication of Social Network Theory is that new board member additions are recruited via the existing social networks (Westphal, 1999).

### 2.3 Life-Cycle Theory of a University Spin-Off (LCT)

The commercialization of research through the establishment of a spin-off is something that takes a long time (Vohora *et al.* 2004; Vanaelst *et al.* 2006). Using the evidence provided by Vanaelst *et al.* (2006) they argue a spin-off goes through or encounters four phases of development: (1) research commercialization and opportunity screening, (2) the organization-in-gestation phase, (3) proof of viability of the newly established venture, and (4) the maturity stage (figure 2). Furthermore, between all the stages the venture will stumble upon critical junctures which they have to overcome if they will continue to succeed: opportunity recognition, entrepreneurial commitment, credibility and sustainability (Vanaelst *et al.* 2006). stage (1) are teams that are working on a research project and have spotted an opportunity in the market, reached out, tried to protect their IP and/or their patent and commercialize their IP. Stage (2) are teams that have identified an opportunity in the market and committed to the creation of a spin-off. Stage (3) are teams who have legally founded a venture and have allocated resources necessary to development of the spin-off. Finally, stage (4) are teams who have proven viability and built up maturity and sustainability. Thus, enabling credibility outside the academic/scientific realm and attracting external resources (Vanaelst *et al.* 2006).

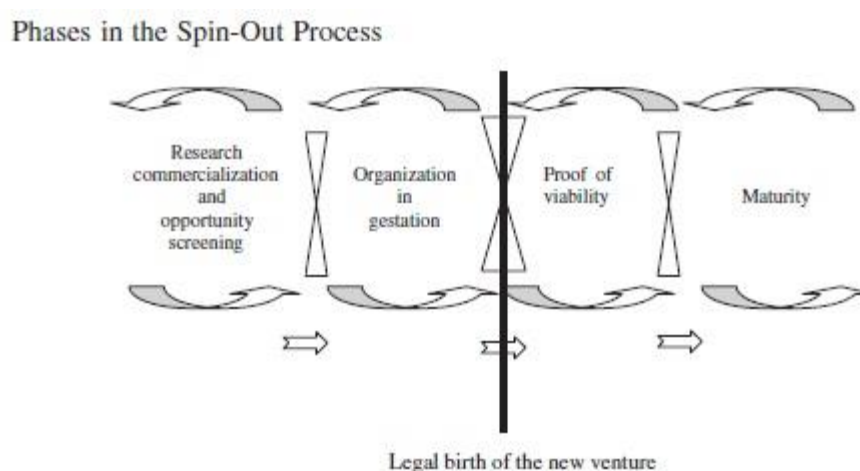


Figure 2: Phases of Spin-off Development (Based on Vanaelst *et al.* (2006) "Entrepreneurial Team Development in Academic Spinouts: An Examination of Team Heterogeneity" page: 255)

### 2.4 Exploring Board formation in University Spin-Offs - An Introduction

Similarly, based on the aforementioned theoretical perspectives, Björnåli & Gulbrandsen (2010), set out to explore the formation and evolution of boards. They (pre-research) argue that during the legal incorporation of the company the constituted board members will be a reflection of the founding team's existing personal network, with inherent characteristics resembling those of the founder, but enabling allocation of resources that the founding team does not have. Post-legal incorporation the board might experience changes, this due to the

fact that the venture needs to acquire or obtain outside resources to overcome specific challenges or critical junctures, thus solving certain problems that arise within the different development stages (Björnåli & Gulbrandsen, 2010). In response, they thus argue that the board members that are recruited in the post-startup stage will to a greater extent reflect the social network of the existing members sitting on the board (Ibid.). However, here they also iterate in unison with Lynall *et al.* (2003) that if the company has external stakeholders on the board, such as CEO or external financier, the board composition will also reflect these individuals' social networks. Nonetheless, the new members are expected to bring critical resources to the board that they advertently lack.

#### **2.4.1 Propositions from Research**

Post-research Björnåli & Gulbrandsen (2010) make a number of proposition and developmental arguments. In unison with Vanaelst *et al.* (2006) they find evidence that there is a difference between pre-startup and post-startup teams: during legal incorporation team and board members are chosen based on the founding team's personal networks and estimates of additional resources that they need to acquire from external "outside" members, whilst after legal incorporation both team and board of directors may be involved in the process of adding additional board members (Björnåli & Gulbrandsen, 2010). Hence, there is a evidential differentiation between the two stages.

#### **2.4.2 Who is Added and Why in the Start-Up Stage?**

During the legal start-up of the company Björnåli & Gulbrandsen (2010) found that the founding teams consisted of solely founders or founders and so-called "privileged witnesses", where the latter is commonly seen as advisors that help guide the founders in the start-up stage and to whom the founders form a close relationship with (Vanaelst, *et al.* 2006). In most cases these privileged witnesses were part of the university community, *exempli gratia*, incubator representatives, current and former MBA students, industrial partner *et cetera* (Björnåli & Gulbrandsen, 2010).

Furthermore, the privileged witnesses' advisory role morphed as they became formalized with the subsequent establishment of the board; thus the privileged witness took a seat on the board with the founder(s) who were formally committed to the spin-off (Björnåli & Gulbrandsen, 2010). However, instances where the privileged witness gave up his seat and appointed it to members from his personal network were also evident.



Thus, conclusively Björnåli & Gulbrandsen (2010) state that the evidence provided spur notions connected to social networks and resource dependency. Entrepreneurs do in fact look at the acquaintances of the leader entrepreneur or team as the primary source for first board members; thus the board formation process is primarily driven by the social networks of the founders (ibid.). As Gulati & Gargiulo, (1999) postulated, as the founders develop professional relationships with the privileged witness who guides them till legal incorporation, this interaction transforms the latter into a “trusted informant”. Irrefutably, social relations between founders and privileged witnesses are thus imperative.

#### **2.4.3 When Do Main Board Changes Occur During Growth Stages?**

Overall Björnåli & Gulbrandsen (2010) provide evidence that indicate that after the legal incorporation, the additional opted-for board members are associated with the progress of the spin-off from one stage to the other stage, or at least they, whether positive or negative, make the spin-off in question appear to approach closer to the next stage. Thus, they argue the addition to the board is often aligned with when reaching entrepreneurial milestone, *exempli gratia*, acquiring external capital, closing deals with collaborative partners, finding new business actors, expansion to markets, sampling product *et cetera*; actions that move the firm and its business forward (Björnåli & Gulbrandsen, 2010).

#### **2.4.4 Why Does the Board Change after the Company’s Legal Incorporation?**

After the firm legal incorporation and the subsequent initial formation of teams and board Björnåli & Gulbrandsen (2010) state that the firm in question tries to recruit key individuals active outside the academic community, this since the initial board plausibly has a limited set of complementary resources that they can provide. Hence, the Spin-offs search the environment for new board members, who have the ability to procure and obtain resources, *exempli gratia*, seed or VC finance, market and/or industry knowledge and management skills (ibid.) via personal contacts of the initial board members or founder. In unison with Vohora *et al.* (2004) and Vanaelst *et al.* (2006) it was evidentially constituted that finance was the prime resource acquired through the new board member, who were all, exclusively, outsider and often investors. Second most prime were resources such as industry experience (including network and specific knowledge) acquired via new board members (Björnåli & Gulbrandsen, 2010).

The importance of having people with previous start-up experience is seen as quasi-quintessential attribute to embody, however Björnåli & Gulbrandsen (2010) argue in their evidence that prior start-up experience was a value that was not opted for as a prime resource

when selecting new board members. Perhaps this is because VC funding is more likely for teams of high quality (Florin, 2005).

Following the second change in the board formation, all decisions were strategic, resource-related consideration to who should be added to the board. Evidence suggests that during the second round of change new members were often outsiders: either VC or industry, whilst during the third change round new outside members were also opted for: investors, industry or CEO (Björnåli & Gulbrandsen, 2010). Thus, conclusively, it is stipulated that board members retained during the second change were mostly investors and other people who contribute with finance and industry-specific networks and knowledge (*ibid.*), which complement the resources and capabilities of the firm. Moreover, during the third change the new members were most likely to be investors, professional executives and “knowers of markets” who had profound knowledge of the market in which potential customers and collaborators conducted business within (*ibid.*). The new members here helped by aiding in tasks such as, acquiring other resources, organization and administration, sales and marketing *et cetera*, while the new CEO, an external professional sometimes hired to replace the founder, was in these instances hired to crumble disarray by having vast executive experience which would aid in the need of more formalized organizational and administrative skills and routines (Björnåli & Gulbrandsen, 2010).

Therefore, as the Resource Dependence Theory predicts, the board, to a larger extent, consisted of members who, by ascribing or adding value to the firm by having access and providing different resources, aim to aid the firm in its current dominant task and propel its prosperous future (Björnåli & Gulbrandsen, 2010; Pfeffer & Salancik, 1978).

#### **2.4.5 How Are Board Members Added?**

While attempting to reach the Proof of Viability stage the new board members were selected to the board through the personal contacts of the privileged witnesses, the founder and the chair of the board. In some few instances it was through the new CEO or investors (Björnåli & Gulbrandsen, 2010). Interestingly, in some instances, an outsider who was elected to the board during the first change, later on became board chair and stayed with the spin-off. Thus, in these cases, as the chair was either an investor or an individual with 15-40 years of experience working in an industry, the subsequent members attracted in the following board changes had similar backgrounds (*ibid.*). Therefore, conclusively, it is stipulated that from the second change and onward the board composition to a larger extent reflected the social networks of the board chair, as social theory predicts (*ibid.*)

Furthermore, it was argued that if a firm has external stakeholders, *exempli gratia*, public research organizations or external financiers, on their boards, their board composition after legal start-up stage would also reflect the social networks of these aforementioned stakeholders (Björnåli & Gulbrandsen, 2010). However, it was of even here unequivocally stipulated, as a convergence over time, that the later board members (selected after initial change) were mainly selected through the personal network of the board chair (ibid.).

## 2.5 Research Model

Based on the following theory, we argue it is of utter salience to provide an illustrative theoretical framework to aid in the research. As stipulated by research, there are many different variables to consider when discussing and researching board formation in a university spin-off setting. Hence, we propose the following framework (figure 3):

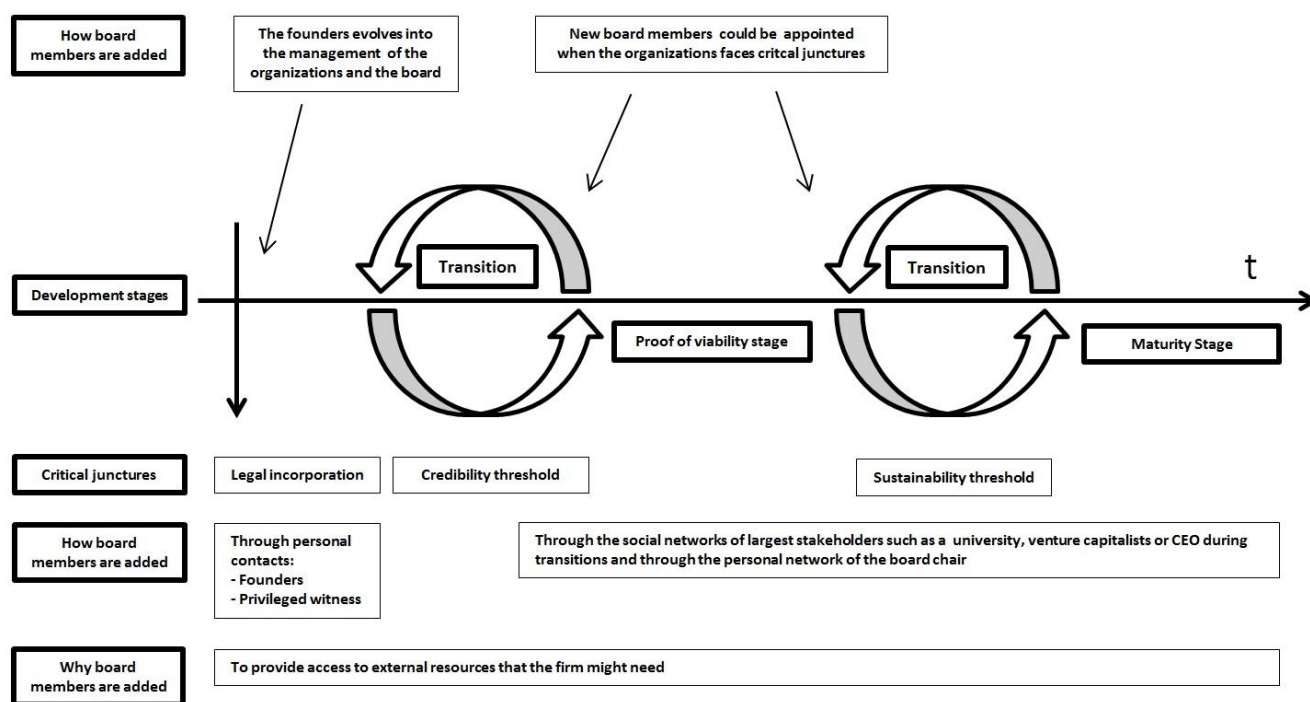


Figure 3: A Theoretical Framework (based on RDT, SNT, LCT and the work of Björnåli & Gulbrandsen (2010)).

As we can see all the theories, Resource Dependence, Social Network and Life-Cycle are touched upon and elucidated within our framework, thus giving it omniscient academic legitimacy. Furthermore all the theory proposed by Björnåli & Gulbrandsen (2010) is also incorporated in our framework which can be seen by the labels in the model. We contend the model will not only aid us in our research but also assist in the comprehension of our study for others as it provides a sterling overview of our theoretical stances.

### 3. Methodology

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The following chapter describes and elaborates on our chosen approaches and conveys the motivations why we did certain choices regarding our theoretical contributions and empirical evidence. We will thus present the design our approach, introduce the case samples we have had, the underpinnings in how we sampled the cases and the methods in relation to how we collected and analyzed the data. Conclusively, all of this will culminate in a discussion revolving around the quality of our methodological assumptions and endeavors.

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#### 3.1 Research Design

In this study we found it suitable to adopt and use a qualitative approach, due to the sole nature of our posed researched questions; the questions suggested that we did not have any prior plethora of information or enlightenment about the phenomenon, *ergo*, a qualitative methodology is preferred, as it allowed us to study the phenomenon's complexity in a richer or deeper context (c.f Jacobsen, 2002). Furthermore, since we did not have any previous knowledge or information about corporate governance or board formation within our realm of research, the opting for a qualitative approach was strengthened; this as this approach strives to describe the world from an inside-out basis which, in elaboration, aided the facilitation of a better understanding of the social realities, processes, patterns, *et cetera* of participants' point-of-view (c.f Flick *et al.* 2004). All of the aforementioned allowed us to study a few units in time but simultaneously gather as many nuances from the latter as possible. We argue that this, *modus operandi*, was of imperative and salient nature since the aim of our research is to further understand the phenomenon of board formation.

In unison with the substance argued in the previous paragraph, we further opted for a deductive research approach in order to cultivate and enrich our research. A deductive study, according to Eriksson & Kovalainen (2008) has its inception in the realization that theory is the prime source of knowledge. Incrementally, the researcher then utilized the proposed theory as a foundation to understand the phenomenon or conundrum and deduce hypotheses, which can ultimately then be subjected to the empirical study. Thus, in general terms, we focused on the transcendence; theory study to empirical study (c.f Jacobsen, 2002). Nevertheless, since we have argued that our subject of research is relatively unexplored within academia, we further stipulated that it was a prerequisite to try to paint a clearer picture in order to aid the determination of what was relevant to investigate. Thus, since our aim is to better understand the board formation of University spin-offs, we were compelled to ask our participants questions that would stimulate profound and relevant answers; hence we asked questions that were of "why" and "how" nature as this would properly permeate our intent and penetrate the conundrum. This is in accordance with Merriam (2009) and Yin

(2003) who argue that when “why” and “how” questions are to be answered an often opted-for strategy is the case study, as its strength lies in its ability to enable to researcher to, in-depth, study a case within its real-life context. Moreover, we have chosen to focus on Swedish University spin-offs as our unit of analysis; *ergo*, emphasis was on, *ex ante*, forming accurate research questions. This was imperative since it is argued that in order to select proper units of analysis, one must first have enunciated accurate and specified research questions (Yin, 2003).

### **3.2 Case Companies and Sampling Procedures**

In correlation with the consensus among data-collecting procedures of a case study, we subsequently focused on excavating information from our possible case interviewees. Since our aim was to study the phenomenon of board formation in a University spin-off setting it was of unequivocal stress that the sampled interviewees in fact had experience from the latter, otherwise their contributions would compromise our legitimacy. Upon approaching the viable candidates which we wished to interview, we formulated a set of criteria, which had to be fulfilled, *ex ante*, in order to assess whether the sample was viable or pertinent to us; this as the rendition of a proper screening procedure must have been undertaken pre collect-data phase, as this will ultimately result in the identification of pertinent interviewees (c.f Yin, 2003). Furthermore, we also argued that it was important that the formulated criteria in question was aligned with and permeated our research objectives, so that the candidates, irrefutably, could be categorized as relevant and lead to valid accounts of information; the emphasis is once more on, pre data screening, setting forth and formulating criteria that will dictate the candidates pertinence (c.f Yin, 2003). Therefore, based on the aforementioned, we devised the following criterions:

- Experience from sitting on University spin-off board(s)

The case interviewees in our research had to have had some sort of experience from sitting on a board in a University spin-off setting. Preferably, we wanted to see individuals coming from different sectors; one could be a trusted witness, one could be a prominent industry person, one could be a spin-off CEO, one other could be an incubator or venture capitalist we propose. Irrefutably, the amount of experience is imperative to acknowledge.

- Sitting period

Preferably we see that our candidates had been sitting on the board for at least 12 months to ensure that they could, over time, notice the changes that the board in fact did undergo. This, *ex ante*, is hard for us to corroborate as to being an appropriate time-axis or not, but we argued that 12 months is the minimum prerequisite for this study.

From the aforementioned, it is both naïve and inevitable to try to ignore the fact that from our outlined criteria one could have extracted hundreds of plausibly pertinent candidates that unarguably could have been relevant for us in this instance. Thus, we conclusively chose the candidates that fulfilled the criteria, wanted to be interviewed and, most importantly, had the time to be interviewed were selected as our samples. Also, as an undisclosed amount of the candidates wanted assurance on anonymity, pseudonyms have been assigned to all respondents and companies, to encumber de-anonymization.

Retrospectively, we are aware that the amount of respondents was substandard in relation to the outlined amount set forth pre-research. However, external circumstances such as time and schedules of several of the wished-for respondents made our outlined amount unattainable; thus making our empirical evidence section somewhat lacking, as empirical material was hard to acquire. Nonetheless, we still promptly argue our empirical evidence is valid and relevant, although some might argue the eventuality of bias; it has been in our most paramount interest to mitigate the latter.

### **3.3 The Data Collection: Secondary Data and Primary Data**

The vast majority of the secondary data that has been incorporated in our research has consisted of scholarly articles that encapsulate the thoughts and academic contributions in relation to corporate governance, board formation and University spin-offs. We argue that the collection of secondary data facilitates a researcher to attempt to form interpretations of the information and by using reliable sources, to a large extent, enhances the overall credibility (c.f Jacobsen, 2002). Therefore we also, without pre-conceived notions, conducted the essential and critical step of reviewing the entire collection of secondary data before deciding whether to yay or nay them on a basis of academic credit and legitimacy. Furthermore, we also decided to use a blend of seminal and much-cited acknowledged articles along with less-credited but still relevant work, to broaden the spectrum. The data found was mainly, but not exclusively, found through the different search engines available such as: SAGE, EBSCO, Summon University of Gothenburg, Google Scholar, Web of Science and Scopus. Many of the engines (mainly excluding Google scholar) enabled an efficient search due to the

possibility of “combination keyword” searches; we could narrow search results by combining keyword such as, *exempli gratia*, board formation + USO + corporate governance. We found a large body of research on aggregate corporate governance, even less on USO related governance and very little on board formation, especially in a USO setting. However, in the end, we argue pertinent information was found that we could utilize.

After having undergone the process of electing case companies we decided it was time to interview the candidates as our primary method of attaining our primary data. Since we opted for a case study, qualitative interviews are regarded as the most important source of information, this as they promote the creation of understandings based on the perspective of the candidate (c.f Yin, 2003; Kvale & Brinkman, 2009). In addition we also opted for a strategy to interview a small quantity of candidates as we argue this would create a better understanding of the phenomenon; this is something Kvale (2006) in unison argues as this approach increases deeper interpretations and results from the data collected. As we previously stated, it was important to ask “why” and “how” questions before conducting the interview; ultimately as they are to be categorized as the “right” questions. We decided to create a structured interview guide, based on the theory and research model (see chapter 2), this as it would enable us to ensure the incorporation of all areas of theory and it would also act as support during the interview. This is as Jacobsen (2002) states the strength of a structured interview; it provides a clear overview of pertinent questions which the researcher wishes to have accounts on. Furthermore, we tried to promote an open and non-hostile atmosphere in order to create a comprehensive dialogue. In practice, this meant that we focused on reducing tension and the risk of threatening the interviewee by commencing the interviews with asking general, more open questions, as we argue this would ease the atmosphere, minimize risk and undermine the delivery of distorted information by the interviewee. As stipulated by Yin (2003) a researcher might operate on different levels; asking questions that are in direct response to the research questions, but also, simultaneously, non-threatening and amiable questions, aiming to foster a pleasant atmosphere.

The interview is a social construction (Alvesson, 2003). Therefore it is commonplace that contextual effects may occur and their subsequent influence will vary depending on the environment in which the interview takes place. We chose to conduct the interviews in a natural environment, that is a place where the interviewee is comfortable, and not an artificial environment, where the contrary is in play, as this might have an unbecoming impact on the answers (c.f Jacobsen, 2002). Presumptively, we saw the workplace as a natural environment

and therefore tried to conduct all interviews within this setting, and all interviews were made in person. Moreover, all the interviews were also recorded to ensure that we could provide an accurately transcribed reflection of the interview accounts which would ultimately increase the credibility of our research. Conclusively, it is also imperative to note that the interviews were conducted using the Swedish language, only to later be translated into English. This might, reasonably, be posed a situation where fallacious cross-lingual errors might arise, however we argue that our bi-lingual proficiency is more than adequate to quench this matter.

### **3.4 Evaluation of Sources**

An absolute plethora of the articles and scholarly contributions that we have included in our research has been published in academically credited and peer-acknowledged scholarly journals. It was a somewhat challenging, but to a large extent it was relatively convenient and straight-forward to find relevant articles regarding corporate governance and USO's. However, finding information on board formation in a USO setting was for starters quite frustrating, but not impossible. Much emphasis lays on the model proposed by Björnåli & Gulbrandsen (2010), this due to the fact that its *raison d'être* so delicately conveys the phenomenon that we wished to explore. Moreover, it can be argued that some of the references and sources used in this work may be seen as somewhat old, which might impede legitimacy. However, we argue that most of the "old" work proposed and used in our research, although not seminal, is still the work of scholars with great credits, such as Pfeffer & Salancik (1978) despite the age of their work. However, in regard to the Swedish context little has been found, therefore, we ultimately decided to incorporate and integrate all the theories and test our model in a Swedish context for disclosing possible universality.

Additionally, we were aware that much of the theory used in our research is based on information compiled from an American context, apart from some evidence that has shed some light upon the context of Norway and Belgium. Therefore we have carefully, *ex ante*, evaluated whether or not applicability is threatened. However since we aim to test our model's applicability in a Swedish context we do not regard it to be an alarming issue, apart from being mentioned.

### **3.5 Data Analysis**

The interview guide was based on our research model; this approach's *raison d'être* aims to create clear and useful empirical data that could be connected to the theoretical framework and thus, ultimately facilitate a proper analysis process. In order to enable an analysis it is crucial that you have structured the collected data, which is what we aimed at accomplishing



(c.f Backman, 1998); and in the interview setting there are a plurality of different analysis methods (c.f Kvale, 2006). Upon completion of the interviews we set in motion the process of transcribing all the interview material. Although this is an immense time-consuming procedure, we argue it organizes the data, giving it structure, which is beneficial to the analysis process (c.f Jacobsen, 2002). Therefore we continued to read the transcribed interviews multiple times in order to familiarize ourselves with and truly comprehend the accounts provided. In more detail, our analysis process commenced with finding patterns, similarities, dissimilarities, contrasts *et cetera* within the empirical findings (c.f Eriksson & Kovalainen, 2008). Then we evaluated these points in relation to our research model and theory in order to pinpoint divergences and convergences of interest.

### 3.6 Quality Discussion

When conducting qualitative research, the concepts of validity and reliability, which are often opted for in settings characterized with a high in-flux of quantitative variables and methods, are somewhat ambiguous in their applicability. These aforementioned concepts have, *ergo*, been supplanted by another more relevant concept which is more applicable in cases of qualitative nature, namely: Trustworthiness (Eriksson & Kovalainen, 2008). According to Lincoln & Guba (1985) who originally elaborated upon the concept of trustworthiness paint the picture where trustworthiness can be seen as an aggregate label for a set of variables that together constitute overall trustworthiness of a study: (1) Dependability, (2) Transferability, (3) Credibility, and (4) Confirmability. These four variables will henceforth be subjected to evaluation and substantiated below.

The dependability of our undertakings, we argue, is strengthened by the methodological chapter provided in the study. Here we have clearly and unbiased, presented and described the different steps, processes and procedures that we have undertaken. Moreover, all the interviews that we conducted were recorded, in step one, to later be transcribed, in step two, which completed the circle; all of this to ensure that all documentation is accounted for and to provide an as accurate rendition as possible (c.f Yin, 2003). In general, we argue that all information relevant to the study have been disclosed, all to improve our dependability of our research. We further contend that the transferability is stellar. We clearly, from the start, delineated that the aim of our study was to qualitatively study board formation of University spin-offs in a Swedish context, thus contributing to the existing body of scholarly work. The theory in our framework is transparent in its origin and clearly illustrated their thoughts, which are then incorporated in to a research model. Finally, the synthesis of our empirical

evidence and their theoretical thoughts is something that strengthens the transferability. We also argue that the credibility is valid. Here, it is argued as familiarization and involvement with the topic increases, so does the credibility. Despite our more assiduous efforts, it would be a lie not to say that time was short and to our disadvantage. However, we still argue that the interviews we conducted gave the pertinent information we wanted to obtain, so in no way do we discredit or find our material corrupt, which would hurt our credibility. The Confirmability we argued is elucidated by providing clear linkages between our empirical findings and theory. We argue this is important to stress as these linkages lead to the erosion and disembarking of imaginative conclusions and interpretations, which is important to quench. Furthermore, our research model has in some sense, metaphorically acted as a bridge, sustaining the linkage.

In summary, we finally argue that the overall trustworthiness of our research is unequivocally not substandard in any regard. Nonetheless, we still contend that subconscious or involuntary fallaciousness can have contributed to certain errors; however we toll the bell of assurance that it has been our unqualified intent to minimize such inexorable mistakes, if they have occurred. Thus, this chapter has evolved and deepened the outlines of the different methodological methods that we have chosen to utilize; all of which can be graphically illustrated by the following figure 4:

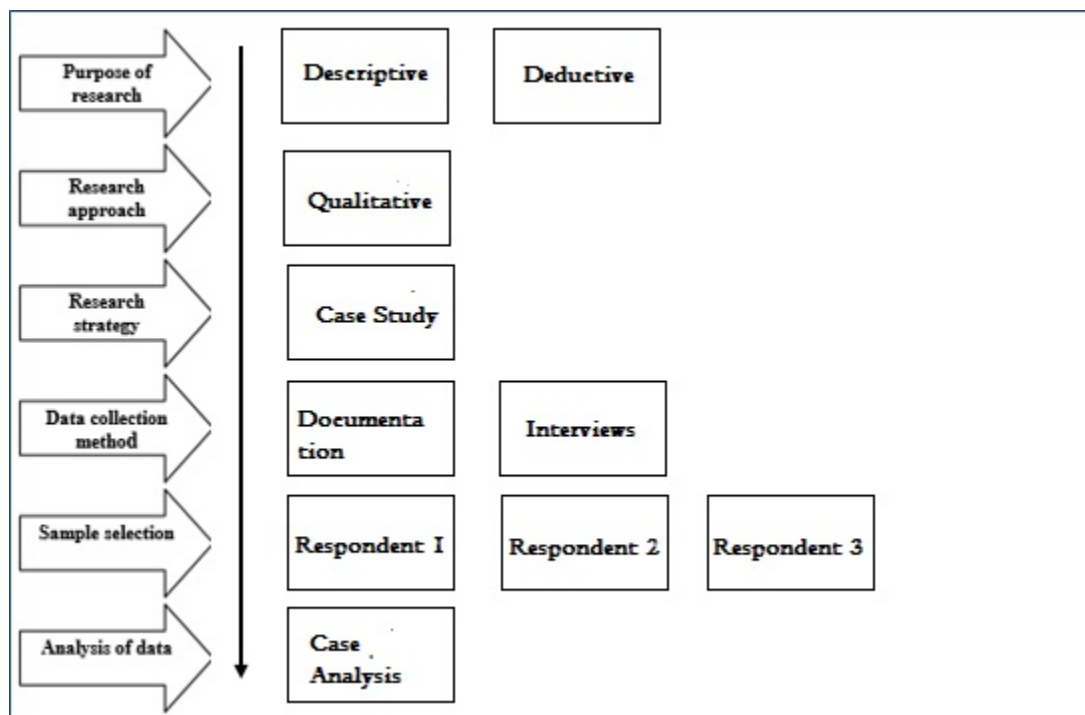


Figure 4: An Overview of the Methodological Stances

## 4. Empirical Evidence

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The following chapter presents a summary of the empirical evidence that we have managed to collect from our case sampled candidates. First we begin with a short introduction and background of our interviewees. This will then be followed by sections where we will investigate and present the evidence from the accounts in a structured manner.

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### 4.1 Interviewee Introduction

HYDROPRO AB

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**ANDREAS JOHANESSON**  
*CEO & Co-Founder*  
 Gothenburg, Vstra Gotaland  
 Sweden

PROSTERIA AB

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**JIMMY HASSELBLAD**  
*Co-Founder, CEO & Business Developer*  
 Gothenburg, Vstra Gotaland  
 Sweden

EXCAVATOR

---

**JANNE LILJEBLAD**  
*Senior Business & Venture Creation Developer*  
 Gothenburg, Vstra Gotaland  
 Sweden

The interviewees that are presented in this study have all been assigned proper and relevant pseudonyms due to the fact that absolute anonymity was wished for. The equivalent measures have been applied to the companies, as this anonymity was also a part of the informed consensus. Nonetheless, a short introductive summary is adequate in order to get acquainted with the interviewees accounted for in the text. Janne Liljeblad is a 72 year-old Businessman with tons of experience within the field of business venture and creation. He has been working with the latter for more than 20 years, and during the last years he has been working for Excavator, which is an incubation-like entity, and therefore he embodies experience on the subject. Andreas Johansson is the 33 year-old acting CEO and CO-founder of Hydropro AB which was founded in 2007. The company has more or less been borderless in its activities since birth and has won numerous prizes and awards since its inception. Founded in collaboration between SAAB Group and Chalmers University of Technology they mainly supply their customers with a kite-like turbine that converts energy from tidal streams and flows into electricity, but also offer similar hydro-technical solutions. Jimmy Hasselblad is a

28 year-old Business Developer and acting CEO at Prosteria AB. During his education he was a CO-founder of the company as a part of the collaboration between Stora Enso and Chalmers University of Technology in 2012. Present in the healthcare industry, they provide a range of intelligent pharmaceutical packaging solutions which aim at improving or quenching the issues related to poor adherence to prescription instructions, which is associated with high costs, and thus problematic.

## **4.2 Janne at Excavator**

When we ask Janne about the first board formations in the USO's that he has been monitoring as a part of Excavator, he explains that in the genesis phase, when the companies-to-be are more of a project than a legally approved entity, a board in theory is not a prerequisite, but when they ultimately reach the level of legal entity, when they form a limited company, the first board is usually comprised of individuals involved in the development of the idea or project from inception. Moreover, he further divulges that in the cases where the USO's are linked to Excavator, it is common that the companies also opt to add representatives from Excavator as a board member, to function primarily as a mentor for the others.

We commence the conversation by discussing board formation and its composition and thus subsequently ponder if it is of normal behavior for the composition to change over time, and if that is the case: how many times does it normally change, why it changes and who gets elected? Janne discloses unequivocally that boards change over time, which is inexorable. Often this is reality due to the fact that the direction that the company has embarked upon requires attentive stimulation. They need to acquire some skill or knowledge to continue to strive towards their goals and therefore it is natural for the company to pay attention outside their own organization's perimeter(s) for potential guidance and knowledge. Therefore, he enunciates the trend that, regardless of where the company is in time, the newly appointed member will exclusively provide some knowledge or sought-after resource which the company in question presently lacks. *"If you compare a more mature company to a young company, of course they will search for different kind of resources due to the fact that they are in different situations, but the pint is that it all boils down to the fact that they need something that they currently do not have"*, Janne vividly exemplifies. *Ergo*, different situations require different individuals with different traits. These individuals thus tend to be individuals with greater industry and commercial experience in general.

Furthermore, when we ask Janne to be more precise and concrete about how often and how many changes in board formation there usually are, the answer is naturally quasi-ambiguous. He hypothesizes that it is hard to estimate how many, and that it depends from case to case (due to contingencies surrounding the company) but roughly between two or four changes is not uncommon from his experience during the years that he has been employed at Excavator. Once again, he denotes the reason for these changes is nearly always an attempt to attain more experience or a new set of skills that is needed to excel towards new foci or goals.

Moreover, we continue to discuss the people that are selected as new board members. We attempt to understand how they find these possible nominees and if their own social network(s) is a big part of this procedure, and Janne is absolutely irrefutably certain it is. He paints a picture where he compares the mentioned phenomenon to Silicon Valley as a cluster for competence, experience and skill. He argues that these complementary skills and relationships between companies are crucial and “*what you give, you will get back*”, is a motto that Janne strongly believes in. Therefore, social ties are of grave salience.

We additionally ask Janne about the chairman of the board in these companies, and who tends to be selected. Janne argues that most commonly, someone within the current board’s social network with a lot of experience from the specific industry in question gets appointed. When we then ask if additional people at a later state gets selected from the chairman’s network specifically to the board, Janne says that it depends, sometimes and sometimes not, and that it is not important whose network the person is selected from, but rather that the individual in question is the jigsaw piece that fits the rest of the puzzle; thus creating symbiosis.

Ultimately, as we discuss venture capitalists and privileged witnesses like himself in boards and their influence, Janne claims that they have neither more nor less influence. When it comes to VC’s, their influence is normally regulated via contracts and other types of agreements, but other than that, the potential in each member of the board is used as much as it is needed for the organization to continue their development. Skill and experience is as previously mentioned the traits that the people involved in USO’s seek the most, he iterates.

### **4.3 Andreas at Hydropro AB**

We commence the interview by inquiring about the first board formation and who was included and why they were included at all. Andreas argues that because of early interest from stakeholders around the company, they quickly transitioned into a limited company. The first board included himself, Martin, a representative from Excavator that helped them from the

beginning and a representative from SAAB with tons of experience and knowledge about the industry in question. They were all either “students” (the project group) or representatives from Chalmers University of Technology, either directly or indirectly.

We proceed to talk about the transformation of the board and Andreas addresses the questions with saying that there have been numerous changes to the board composition. As previously stated, they were four in the inception phase and now they are six, and at the same time individuals have been discharged from their duties on the board, others have been recruited. The individuals that have been acquired have always possessed some sort of skill or knowledge that they sought or needed at the given time, Andreas acknowledges. Primarily they searched for pure knowledge and competence which was relevant to their business operations, however vast industrial experience was additionally a factor of imperative nature that was wished to attain. Some of the individuals that have been chosen as board members have been either Venture Capitalists or representatives of investment companies with vast networks and knowledge themselves.

Furthermore, Andreas states that they have changed the board about four times and once again stresses the fact that a change in board composition has been made when a certain trait/-s has been lacking within the company. As an example, Andreas tells us that before they expanded their business to Great Britain (which they did early on, as they gained international attention by winning an array of different awards), they needed someone with international experience to guide them through unknown territory, especially as this change came so close to the founding of their company. *“You know, you do not attract less attention after winning a bunch of awards, if you know what I mean”*, Andreas smilingly adds.

Andreas says that if any acquisition of any member on the board happened at a crucial time, it must have been the selection of their current chairman, which was before they expanded internationally as mentioned in the previous paragraph. Andreas therefore, *ex ante*, addresses our questions about the chairman of the board without us luring him in that direction. He tells us about the chairman, who has filled that role for years now. He has vast experience from the field and is according to Andreas a remarkable man and has irrefutably been an asset to the company throughout the entire process, but he further discloses that they have not acquired many, if any, people through his social network to the board.

Moreover, we ask Andreas if social networks have been a big part of the process when searching for new viable applicants and Andreas agrees with that premise. He explains that in

every case, the appointed individual has always, in some fashion, been connected to someone's personal network in the current board.

We further discuss the benefits and intricacies in regard to Venture Capitalists and privileged witnesses from companies like Excavator, Andreas claims that the influence from these people have been sporadically challenging, but at the same time positive, important and a necessity. *"Of course, some relationships have been tense and difficult, especially when we have been under a lot of stress, but in the end, we have always worked them through and the results have so far been positive"*, Andreas states. The VC's are usually a part of the board on a contractual basis, thus as representative for investment firms and their portfolio. Their competence and knowledge is important for them according to Andreas, otherwise they wouldn't be sitting there.

As we conclude the interview, we ask about the possibility that these Venture Capitalists might be sheltering their own "portfolio interests" from certain contingencies. He argues he is aware of the risk, but at the same time he does not consider the issue so alarming so one should excessively worry, even though he admits it could be something to be more concerned over when times get harder, which is something that the company has yet to experience on a large scale.

#### **4.4 Jimmy at Prosteria AB**

After an insightful presentation of the company and its products and employees, we start to discuss the first board, its first members and their underlying reason(s) for being members at all. Jimmy says that he desires to start the story before they were a limited company, when they were a project group consisting of three students from the educational program, two representatives from Excavator, and two representatives from Stora Enso. He tells us bluntly, that they (being the students) did not really have much to say, and merely seen as "quasi-muppets" carrying out the plans and strategic moves that the other four (Excavator and Stora Enso) pinned out for them. *"It felt kind of weird at the start of the project, that we did not contribute with more than our energy and dedication and they did all the "real work", but after a short time, we could clearly see that their knowledge and experience would help us a big deal looking forward"*, Jesper argues. The only real change they could have potentially changed or influenced was that if the relationship with one or both of the privileged witnesses from excavator was harming the process of developing the project, they could contact

Excavator and file a complaint which could result in change, *exempli gratia*, discharging the person from his or her duties, but that was pretty much it.

Furthermore, when we ask why these people were chosen, he says that they were not really chosen, they were more or less given since Stora Enso had the technology and the history as they were the company that had laid down the ground work by developing and figuring out the main concept of the core-product, and the representatives from Excavator was the people who brought it all together and was regulated by rules as they were a USO company, *Ergo* the board was chosen. Jimmy argues, that all of these aforementioned individuals were fantastic to have present within the company's walls, especially one from Stora Enso who had all the history and data from developing the core product, but he stresses that all of the representatives contributed with their network and knowledge. He exemplifies by also talking about a special representative from Excavator, who has been involved in numerous of small start-up companies and knew all the pitfalls and shortcuts to better developing the project. He also adds that these individuals were not all included in the first board; it had changed numerous times along to path to becoming a limited company. He further stresses, that during the fall, a couple of months before they turned into a limited company, they took a hard look at and assessed the individuals involved in the company at the time and their knowledge/skill and experience and ultimately concluded that they were in need of someone who had recent and vast experience from the industry in question, which was Pharmaceutical. As they vetted the market, through the board's own contacts, they found Karin, who met their criteria well. Karin, including two representatives from Excavator and one of the students as a representative for the original students, formed the first board as they in a legally binding sense morphed into a limited company.

The representatives from Excavator who were involved in the project from the start were not the same who were chosen as board members. The business coach who worked as a mentor for the group was replaced, but Jimmy tells us that they still maintain an informal relationship with the former mentor, which constitutes a continued arena for guidance, communication and counseling.

Furthermore, Jimmy postulates that the experienced individuals included in the present board at times also fill a potential gap in the "students" portfolio, as they are young and have limited repertoire of referential experience. The board and their vast connections and knowledge can



help them attain some legitimacy and attract more individuals as a subsequent and direct consequence.

Since Prosteria is a young company, they have not changed the board formally since the registration of the company. But when we ask Jimmy about the future and potential changes as the company grows, he brings up the fact that the company will need capital to finance continued growth, and therefore feel the urge to contact a VC or angel to aid them in future endeavors, and he rapidly adds that as a result of latter, they aim at probably adding someone to the board.

Furthermore, we continue to discuss and dissect VC's and future investments. Jimmy argues firmly that they do not want "bad money" and he explains that they will search for the "right" investor with skills or experience that align with their visions and goals both externally and internally, since more often than not, people who invest money usually have opinions about how the business should be run. Therefore it is crucial that the investor is a suitable match on more levels besides solely being the "doctor" that injects the remedy of capital.

As we ask Jimmy, where they might find someone like this, he postulates that the industry in Sweden is really small, and that nearly everyone entrenched in it have a wide array acquaintances on some level; thus it probably will be through personal recommendations.

As we conclude the interview, we talk about what Jimmy thinks will be future changes in the board formation of the company, and he discloses that someone will be added to the board for certain, but no one will be "thrown out". He argues that this action will be further elaborated and hopefully implemented when they acquire funding in the form of capital through an investor, VC or "angel" in about six months. He argues that they need someone who possesses experience and knowledge about sales and market communication, since that is something they currently lacking within the company. He says that that have started to scan the market for possible applicants.

## 5. Analysis

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The following analytical chapter divulges upon the results collected from our empirical data, which in a juxtaposing manner, is put in contrast to the adherent theories elaborated on our theoretical framework. Thus, the former and the latter dyad are presented and scrutinized in a sense-making manner against each other, bearing our research model in mind. The embarked approach will facilitate and arena for excavation of findings and arguments.

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### 5.1 Resource Dependence Theory (RDT)

Resource Dependence Theory (RDT) in essence stipulates the plausible influential conduciveness external factors might endue upon organizational behavior and decisions. Furthermore, as mentioned, both Hillman *et al.* (2009) and Pfeffer (1972b) argue RDT has often been ascribed when examining board composition as an indicator of the latter to attain critical resources and competencies to the firm; as a response to the external environment's conditions. All of our respondents provide accounts that are in concurrence with aforementioned theoretical assumptions. Janne argues that they always look for outside guidance and knowledge, where new board members provide knowledge or resources that the company lacks at the given time; thus depending on the situation of the company different people with different traits are opted for. Moreover, both Andreas and Jimmy are in unison with Janne's statement. Andreas states that they have always recruited new boards members based on the premise of knowledge or skill they have wanted or needed at a given time which has been lacking; often being pure knowledge or competence relevant to business operations. Jimmy aligns his answer along the same axis, stating that they are looking for the "right" investor with skills or experience that meet their visions and goal and someone who has marketing knowledge, as this is lacking within company walls.

Additionally, Pfeffer & Salancik (1978) specifically divulge that directors can bring about four conducive contributions to organizations: (1) advice, counsel and information, (2) access to information channels, (3) access and preference to resources, and (4) legitimacy. All of our respondents, either explicitly or implicitly, in their accounts describe similar traits in the acquired board members. Janne states that they tend to have greater industry and commercial experience, implicitly alluding to all the antecedents. Andreas explicitly describes, for example, when they recruited a new board member to aid in the cumbersome entailments a UK expansion foretold, this recruitment was imperative for guiding through the unknown territory; hereby alluding to antecedents (1), (2), and (3) specifically. Finally, Jimmy specifically argues that their board with their inherent vast connections and knowledge aid them in attaining legitimacy, which subsequently attracts more individuals, hereby alluding to

antecedent (4). Conclusively, we argue that Resource Dependence Theory irrefutably attains connotations that imply its legitimacy in our study. It is evident that our respondents in their actions can be linked to the theory in question.

## **5.2 Social Network Theory (SNT)**

Social Network Theory (SNT) explores the possible conducive outcomes that can be extracted from social ties, and personal networks of individuals. Timmons & Spinelli (2004) argue that firms often explore the lead entrepreneur's or team's personal network for outside directors. Moreover, both Forbes *et al.* (2006) and Westphal (1999) argue that the addition of board members is driven by actor's social and interpersonal networks and relations; new board members are recruited by social networks. All of our respondents account for the salience of social networks and their actuality in regard to their own, *post ante*, decisions and actions. Janne states that it is common that someone from the board's current social network gets appointed as a new board member, and also highlights the grave importance of complementary skills and relationships, in clusters such as Silicon Valley; these social ties are what he aims to enforce. Both Andreas and Jimmy concur; the former argues that in every new appointment case, the new member has been connected to someone's personal network in the current board, while the latter explains when they recruited their current chairman, it was through the board's own contact network, and future additions will likely be through personal recommendations. However, in contrast to Timmons & Spinelli's (2004) positions no explicit evidence from our respondents seems to be of corroborative nature. However, we argue it is naïve to exclude its legitimacy in our study due to lacking this nuance. It is possible that some additions to the board could have been via the lead team or entrepreneur's personal network; however it has not been explicitly disclosed in our case and can thus only be suggestive in our findings. Overall, conclusively, our empirical findings elucidate the alignment of Social Network Theory in theory and in practice. The evidence suggests that we can confidently state the resilience between theory and practice in this matter.

## **5.3 Life-Cycle Theory of a University Spin-Off (LCT)**

Life-Cycle Theory (LCT) stipulates that a Spin-Off goes through a number of phases in its commercialization and developmental process (Vohora *et al.* 2004; Vanaelst *et al.* 2006). stage (1) is a team that is working with a research project and have found an opportunity in the market, reached out, tried to protect their IP and/or their patent and commercialize their IP. Stage (2) is a team that has identified an opportunity in the market and committed to the actual creation of a spin-off. Stage (3) is a team that has legally founded a venture and has

allocated resources necessary to develop the spin-off. Stage (4) is teams who have proven viability and built up maturity and sustainability; hereby manifesting credibility outside the academic and scientific realm, thus attracting external resources. Furthermore, Vanaelst *et al.* (2006) argue that between all the phases the venture will face critical junctures, which have to be overcome if to continue towards success. Both of our Spin-Off company representatives Andreas and Jimmy implicitly state that they have already passed stages (1), (2) and (3) this since they have legally been founded, which can be substantiated by the AB (Aktiebolag) acronym assigned to the company name. Thus, they have become a legal entity, according to Swedish Law and commenced the development of the venture. In regard to critical junctures, they are inevitable and somewhat of an ubiquitous occurrence that arises within the realm of business, nonetheless both Andreas and Jimmy give examples: Andreas states that the recruitment of their current chairman was, to say the least, imperative when they started the expansion in the UK, which was a big commitment for the venture for striving towards stage (4). Jimmy states that they, within six months, will plow capital in the venture via VC or angel co-operation to propel the venture forward which probably simultaneously will lead to another board change; also striving toward stage (4). Overall we argue that critical junctures have been experienced by our samples in regard to the aforementioned phases of development. However we further argue that the two ventures are at different stages in their mission of propelling towards a concrete abutment with stage (4). Hydropro AB is clearly ahead in its development, due to its active age as a legal venture and its already “born global” appearing internationalization commitments, whereas Prosteria AB have surmounted the viability step but are still trailing Hydropro in regard to progress towards maturity and sustainability, we argue. Nevertheless, the applicability of the phases of development in our study we find to be of pertinent character.

## **5.4 Exploring Board Formation in University Spin-Offs**

### **5.4.1 Who is Added and Why in the Start-up Stage?**

Björnåli & Gulbrandsen (2010) found that the board formation in the start-up stage consisted solely from members of the founding team or together with a trusted witness who could be viewed as an advisor or councilor to whom the founding team form a strong connection and amiable relationship to. They also found out that in line with RDT, individuals recruited to the board are primarily found within the social network of the founding team and/or the privileged witnesses social network.

Basen on the latter, Janne, as a representative of Excavator, confirmed that the first board is usually made up by the project group (the founding teams in these cases) involved from the start, at least with most of the startups he has been involved in, but the teams often includes a privileged witness from Excavator to sit in on the board as a mentor and councilor to the founding team. Andreas at Hydropro told us that the first board constellation was made up by him and Martin, (who were members from the project group and, *ipso facto*, founding team), a privileged witness or councilor from Excavator and an individual from SAAB, who had developed the technology from the start and drawn out the core idea, to help them with providing knowledge and experience about the industry. This person from SAAB was found within the privileged witnesses' personal social network; they also sat on the first board and supervised them during start-up. Jimmy at Prosteria postulated that their first board was made up by Linnéa (as a representative of the founding team), two representatives from Excavator (who were privileged witnesses) and an individual with extensive experience about the pharmaceutical industry who became chairmen of the board. She was found through the personal social network of both the privileged witnesses that were included in the first board because they realized they needed her knowledge and skill about the industry in question.

All cases above, mentions a trusted witness, combined with the founding team (the project group) were people appointed as board members as they were legally incorporated as a legitimate limited company. Other people who were added in both Andreas and Jimmy's case were individuals found in the social network of the privileged witnesses, which further denotes a clear similarity to what the authors found in their research. In contrast to what we the authors found we can see in both Andreas and Jimmy's case, people who were not privileged witnesses or members of the founding team were selected as board members. We reflect that this might be a product of the special settings provided at Excavator, where external parts from companies are deeply involved as the project group progresses and form relationships with the project group, and therefore become important for the founding team to have within the company as they strive towards their goals.

#### **5.4.2 When Do Main Board Changes Occur During Growth Stages and Why Are Board Members Added After Legal Incorporation**

The authors Björnåli & Gulbrandsen's (2010) research provided evidence, as previously mentioned, that concluded that after the corporation becomes a legal entity, additional board changes in spin-offs are closely matched with progress where the spin-off appears to be closer to the next step towards maturity they need to take in order to achieve their goals. Therefore,

changes are often made, according to the authors, when they reach certain crossroads or critical junctures where external help is needed to get past the hurdle. This could be, for instance, in connection with acquiring of new capital, finding new business partners and whilst expanding to new markets *et cetera*. The authors have also concluded, that changes after legal incorporation in board composition are often a fact, when the venture needs external help they do not possess at the time, so they try to attain this knowledge or skill or experience externally, by recruiting new members to the board. During our research, we have found evidence that validates what the authors in fact postulate.

Janne is very clear about the reasons why and when composition changes and says to his knowledge, there is nearly always an attempt to attain something that the company in its present form does not possess. By recruiting new members, they can achieve this and help them towards excelling as a company. Andreas argues that every change they have ever made, which is to the present day four times, they have made those changes because they needed something they did not embody at the time. He postulates that new members have been either Venture Capitalists, representatives from investment companies, which provided external capital, or people with great experience, knowledge and/or skill about the industry. He specifies his answer by telling us about the present chairmen, who were crucial to them in the given time he was appointed, since he had the experience and the knowledge about reaching international markets and therefore was very important to them both in general, and in specific cases where they were aiming to penetrate the British market. Andreas also postulates that some of members are representatives from companies that injected capital from an external partner, and therefore obtained a seat on the board. Since Jimmy's company has not yet made any changes, post-legal incorporation, to the board composition, he does not express any concrete evidence that supports the latter. However, he is very clear about the fact that he knows that during the next couple of months, they will have to plow capital from an external source, like a VC or angel, and therefore will appoint someone new to the board. However, Jimmy argues that the ideal situation is to find a VC that is both willing to put up capital, and who fits their profile and shares their visions, since VC's who put up equity usually have personal agendas when it comes to how they take care of the business. He further postulates, that at the moment they are looking for someone with sales and market experience and knowledge, since this is something that they current unwillingly lack within the company's walls.

Why our findings are cohesive with what the authors found is not especially strange. If everything is working as it should, there is no need to change anything. Changes are made when things need to take another direction, not carry on in the same patterns, so the findings seem rather clear to us.

#### **5.4.3 How Are Board Members Added?**

As previously stipulated in the aforementioned sections, Björnåli & Gulbrandsen (2010) divulge that new board appointments were made through the personal networks of the privileged witness, the founder and the chair of the board. We have no concrete evidence that suggests that during proof of viability stage, new seats are specifically not found through the personal networks of the existing board. *Au contraire*, we can clearly underline the fact that all board additions are linked to the individuals that currently sit on the board. Hence if, for example, a privileged witness sit on the board, it is conceivable that additions or changes to the board will be via the latter's personal network. For instance, Janne hypothesized that it is not important which individuals social network the appointed member originates from, but rather that the individual possesses the sought after traits. When asked if additional members get appointed through the chairmen's network at a later stage, he iterates "*Sometimes, and sometimes not*". This statement corroborates what is previously argued by us.

Furthermore, Björnåli & Gulbrandsen (2010) proclaim that an external or outsider, who was elected during the first board change after legal incorporation, later on became chairmen of the board and stayed with the spin-off. Our findings follow the same patterns, but there is one major distinction in play of fascinating character. Consistent with the authors, we found that in Jimmy's case, an external part was introduced to the group as the group changed for the first time and were later on elected as chairmen of the board, but this happened before the legal incorporation. They were therefore not a board in a legal sense. However upon founding during university, they had an informal board which discharged the same duties as a legal ditto would. This, we argue, is an enthralling fact to further divulge upon.

### **5.5 An Analytical Reflection**

Using our research model as an analytical tool to aid us perlustrate the empirical data, irrefutably was of grave salience in gaining a greater understanding of the studied paradigm. Although the model was deficient in some areas, overall its legitimacy in our study has been of imperative nature. Subsequently, conclusive remarks from the analysis varied in different ways, which will be processed and further scrutinized in the following chapter.

## 6. Conclusions

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The following conclusion chapter will present findings and results from our study by answering the denoted research questions. Furthermore, we will embark on a path where we discuss the managerial implications of our study where we specifically answer how conducive our study is for the field of practical management. Finally, we intend to elaborate a discussion in regard to how future research could use our findings and how to extend this line of research.

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### 6.1 Empirical and Theoretical Contributions

The purpose of this study was to embark on an academic sojourn and dive into the phenomenon, which in colloquial terms, revolves around board formation in a Swedish USO setting. Hence, our most paramount intention has been to increase the knowledge of the latter within the corporate governance field and subsequently provide imperative insights for contemporary and future research. The research questions stipulated and formulated in this study aim at elucidating the purpose by answering the following:

1. *How and why are specific individuals selected as board members in USO's?*
2. *Does the selection of board members vary depending on what stage in the life-cycle the firm is in?*

1. The empirical evidence found in our qualitative study suggests a clear answer to the abovementioned question: All of the respondents clearly mentioned that new additions or changes to the current board are an attempt to attain something they, in their current constellation, do not have access to or have not allocated. In order to achieve certain goals, the company needs to acquire the right sort of and complementary skills, experiences, resources *et cetera* that individuals outside the company's walls or in the latter's peripheral external environment possess, to the, already existing pool of traits. Thus, we yet again emphasize the legitimacy and relevance of Resource Dependence Theory in the USO setting as its applicability permeates our respondents' accounts.

The recruitment of new personnel to the board seems to be closely linked to Social Network Theory. Some patterns can be discerned, *exempli gratia*, that these individuals are usually found through the own social networks within the company's walls. The respondents clearly provide indications that align with the stipulations provided by SNT.

2. From our study there is no decisive evidence that suggests or correlates with our above mentioned research question. In theory, the models are simplified versions of reality. Due to



their simplified nature and limited scope, it is logical to argue that its applicability must be, to some extent, constrained. We can concur with the fact that the life-cycle model holds underlying truths and postulations. However, our respondents do not give any clear evidence that strengthen the model enough to confirm one hundred percent validity in a practical setting. What we can underline in our study is that companies do change its board composition, due to changes that occur over time, but in black and white and in reality, it is not that simple. It is naïve to rectify and rationally support a notion that suggests that all companies in an USO setting follow the same trajectory of development and thus, would encounter the exact same challenges at a fixed place in along the time axis. It is however logical to argue that similar encounter would occur, but yet again the time-parameter is elusive to elucidate when discerning patterns between the dyadic relationship of a theorized models and practical reality.

Digressing from the research questions, after concluding the juxtaposing process between the empirical data and the theoretical facets incorporated within our research model, we argue that the latter fulfills its purpose and thus is applicable when studying USO's in a Swedish context. Elaborating on the latter, we subsequently elucidated that the facets proposed within the model are of valid character, when applied in cases similar to this study's. All of our respondents more or less gave answers that, to large extents, were relevant in regard to the facets, regardless of whether they concurred or digressed from the facet's stipulation. However, as previously argued, some of the implied proposals by the model, such as the time-parameter, would need some more empirical support to be able to credit it vigorously. Furthermore, it would be interesting to test the model's applicability in several other contexts, this to broaden the model's spectra and provide more account along its continuum of results; as we inhabit a planet characterized by ever-increasing inter-connectivity and globalization we support the interest of multi-contextual appliance.

## **6.2 Managerial Implications**

Our study elucidates the precursors involved in the process of board formation and composition in the USO setting. We argue the aforementioned findings delineated throughout this study is of essence for management and potential spin-off entrepreneurs to acknowledge, this as they constitute a platform where they can, in a self-reflexive manner, be aware of what factors, actually are active in the board formation, as impede hindsight reflections and other perceptions of retrospective nature. We have emphatically turned our peripheral eyes towards different theories in order to improve our eye's focus. The foci of Resource Dependence,

Social Network and our research model we argue have been of great salience in this process, and yet again argue, as a conclusive remark, that the same can be accomplished for our focus group readers. Within both theoretical and practical communities the aforementioned elaborated theories are not of unknown character, however as the dominance of agency theory still prevails and, to a large extent, clouds the sky of corporate governance studies, we sincerely hope that new insights have been shed upon the conundrum, which might aid our future individuals operating within the USO setting as we argue *scientia potentia est*.

### **6.3 Future Research**

We have snared our attentive eyes towards the phenomenon of USO board formation and composition in a Swedish context and have come to the conclusion that they are heavily influenced by Resource Dependency Theory and Social Network Theory, which we, *Ex Ante*, anticipated and therefore added in our now-proven-to-be relevant research model. An exemplary and complimentary alternative approach for future research regarding our topic is to opt for a longitudinal study. We exclaim that this would certainly help in painting the picture of the conundrum as it entails other insights that might shed some light, we might have left reluctantly in the shadows. Furthermore opting for a quantitative methodology, instead of a qualitative one which we embraced, would irrefutably blend perfectly with our qualitative findings, creating a symbiosis that ultimately constitutes a foundation from where new patterns can be drawn from. Furthermore, opting to use alternative theories or even geographical locations might be an area containing possibilities as this field of research transcends borders of paradigms and into the future. Overall, we digress from viewing this field of research as saturated. *Au contraire* we see it as both lucrative and thought-provoking, and as it is under-researched, the possibilities are endless, and therefore we urge future researchers to find alternative endeavors and thought-provoking angles to dissect the field and accentuate new findings.

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## **Interview Guide**

### **Grundläggande:**

Vad heter du?

Vart och vad jobbar du med nu?

Hur ser din vardag ut, på ett ungefär?

Berätta om organisationen?

### **Teoretiskt förankrat:**

I vilket skede bildades er första styrelse, vilka var med och varför just dessa personer?

Har styrelsesammansättningen ändrats? Och i så fall, Vem/varför/hur?

Hur många ändringar, och när?

Fanns det någon speciell anledning till att styrelsens sammansättning ändrades?

Har sociala nätverk och gemenskapskretsar spelat en större roll vid ändringar?

Vem blir oftast styrelseordförande? Ändringar?

Värvas flest nya medlemmar från hans kontaktnät?

Venture-Capital eller Encubator i styrelsen? Hur stort inflytande har han då?

Är du inte rädd att VC gör beslut som gynnar dem i deras portfölj men inte ”ditt företag”?

Kan du nämna några kritiska tillfällen där förändring i styrelsen sker? (exempel)